

FISCAL NOTE

Bill #: HB0756

Title: Encourage production and use of biodiesel

Primary Sponsor: Gutsche, G

Status: As Amended in House Committee

Sponsor signature	Date	David Ewer, Budget Director	Date
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Fiscal Summary

	<u>FY 2006</u> <u>Difference</u>	<u>FY 2007</u> <u>Difference</u>
Expenditures:		
General Fund	\$0	\$0
State Special Revenue	\$0	\$0
Revenue:		
General Fund	\$0	\$0
State Special Revenue	\$0	\$0
Net Impact on General Fund Balance:	\$0	\$0

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Department of Revenue:

1. The effective date is July 1, 2005.
2. Section 1 of this bill allows a taxpayer to receive a credit against individual income tax or corporate license tax for investment in depreciable property in Montana to crush oilseed crops for purposes of biodiesel production. The amount of the credit is 15 percent of the cost of the property up to a total of \$500,000 for property investment in a facility. The credit must be taken in the year of purchase, and must be claimed in the tax year the facility begins processing oilseed or manufacturing a product from oilseed. If there is more than one investor with an interest in the business, the tax credit may be allocated among the investors with interest in the business and their successors or assigns. If the facility ceases operation within 5 years, the credit is subject to recapture. In order to qualify for this credit, the facility must be operating before January 1, 2010.
3. Section 2 of this bill allows a taxpayer to receive a credit against individual income tax or corporate license tax for the cost of constructing and equipping a facility in Montana to be used for biodiesel production. The taxpayer is entitled to claim a credit only for the year the facility begins production. The amount of the credit for investment in depreciable property is 15 percent of the cost of the facility or the

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cost of property installed in the facility. The taxpayer is not allowed to carry any part of the credit forward to succeeding years. If there is more than one investor with an interest in the business, the tax credit may be allocated among the investors with interest in the business and their successors or assigns. If the facility ceases operation within 5 years, the credit is subject to recapture. In order to qualify for this credit, the facility must be operating before January 1, 2010.

4. Investment in oilseed crushing and biodiesel production equipment in CY 2005 is zero.
5. Impact to general fund in FY 2006 from credits against tax on production in CY 2005 is zero.
6. Investment in oilseed crushing equipment in CY 2006 is \$2,000,000.
7. Potential general fund impact in FY 2007 from credit on investment in oilseed crushing equipment in CY 2006 against tax on production in CY 2006 is \$300,000 $\{ \$2,000,000 * 0.15 \}$. Since this investment will be made by a start-up with no expected tax liability, expected impact to the general fund in FY 2007 is zero.
8. Investment in biodiesel production equipment in CY 2006 is \$10,000,000.
9. Potential general fund impact in FY 2007 from credit on investment in biodiesel production equipment in CY 2006 against tax on production in CY 2006 is \$1,500,000 $\{ \$10,000,000 * 0.15 \}$. Since this investment will be made by a small start-up with no expected tax liability, expected impact to the general fund in FY 2007 is zero.
10. This bill would have no administrative impact on the Department of Revenue.

Department of Transportation:

11. Section 3 of this bill provides incentives for biodiesel production. Incentives are payable to producers for increases in annual biodiesel production for the first three years. The incentive is 10 cents per gallon for all biodiesel produced the first year, and 10 cents per gallon for increases in the second and third years. Incentives are available only on production for which the fuel tax has been paid.
12. Incentives will be paid on a fiscal year basis to biodiesel producers.
13. In FY 2006, projected production of biodiesel from Montana ingredients is zero gallons.
14. Incentives payable in FY 2006 are zero.
15. In FY 2007, projected production of biodiesel from Montana ingredients is 3,000,000 gallons. However, since incentives are paid on total fiscal year production, and licensed distributor returns for June 2007 are not due until July 25, 2007, incentives for production in FY 2007 will not be paid until FY 2008.
16. Incentives payable in FY 2007 are zero.
17. Of the 3,000,000 gallons of biodiesel produced in FY 2007, 20% will be exported. Exported bio-diesel is not eligible for the incentive.
18. Incentives payable in FY 2008 are \$240,000 $\{ 3,000,000 \text{ gallons} * 0.80 * \$0.10/\text{gallon} \}$.
19. There will be minimal administrative costs associated with issuing incentives.

LONG-RANGE IMPACTS:

Estimated production incentives payable in FY 2008 are \$240,000. Production incentives are payable on production through June 30, 2010, if production satisfies criteria listed in section 3. Tax credits on investment in depreciable property for oilseed crushing and biodiesel production sunset December 31, 2009.

TECHNICAL NOTES:

1. Section 1 provides a credit with a limit of \$500,000. It is not clear whether this limit is on the credit per taxpayer or per facility.